

LEOFF Plan 2 Retirement Board Budget Comparisons

1. OFM Fiscal Impact Statement for Initiative 790 (November 2002)

Initiative 790 – General Overview

Initiative 790 proposes significant changes in three areas of the LEOFF 2 pension system: governance, contributions, and benefits. It seeks to transfer program authority to a rule-making board and institutes three levels of benefits for members, which may increase benefits and affect contribution limits. The estimated costs of the program are also discussed.

Initiative 790 – Estimated Costs

Administrative Costs

The new LEOFF 2 Pension Board required by Initiative 790 is estimated to cost between \$1.1 million and \$1.3 million in its first fiscal year. In following years, the cost would depend, in part, on whether the Board chooses to rely on existing state agency staff for some support, or whether it decides to create a more independent structure. With the use of existing agency staff, the second year cost would be about \$1.5 million and slightly more in following years. If the Board decided to create a more independent organization, the second year administrative cost would be about \$3.5 million.

Table 1

Administrative Costs		
	Option 1	Option 2
FY 2003	\$1.1 Million	\$1.3 Million
FY 2004	\$1.5 Million	\$3.5 Million
FY 2005	\$1.2 Million	\$2.8 Million
FY 2006	\$1.3 Million	\$1.5 Million
FY 2007	\$1.2 Million	\$1.3 Million

Source: <http://www.ofm.wa.gov/initiatives/i790.htm>

There were no staffing projections published in the fiscal impact statement but the background analysis on which the cost estimates were based projected that 8.0 to 9.5 staff would be required for Option 1. The categories for these staff were identified as 4.0 - 5.5 administrative, 1 general, 1 communication, and 2 information systems.

The background analysis projected that 9.0 to 15.5 staff would be required for Option 2. The categories for these staff were identified as 5.0 - 6.5 administrative, 1 general, 1 communication, and 2 - 7 information systems. Many of these positions were projected to be only necessary for an 18 - 24 month temporary start-up period in FY 04/05.

2. SHB 2197 – Implementing I-790 Administrative Fiscal Notes (April 2003)

Table 2

Administrative Costs		
FY 2004	\$2.07 Million	11.0 FTE
FY 2005	\$1.79 Million	11.0 FTE
05-07	\$3.34 Million	11.0 FTE
07-09	\$3.34 Million	11.0 FTE

The Department of Retirement Systems and the Office of the State Actuary submitted administrative fiscal notes for the implementation of the Board created in Initiative 790. The total combined cost and projected full-time employees (FTE) of these fiscal notes is included in Table 2 above.

The breakdown of the projected 11 staff was as follows:

Executive Director	L2 Board	Board Manager	DRS
Executive Assistant	L2 Board	Clerical Support	DRS
Public Information Officer	L2 Board	Accountant	DRS
Research Analyst	L2 Board	Retirement Services Analyst	DRS
Financial Analyst	L2 Board	Information Technology Specialist	DRS
		Actuarial Assistant	OSA

The timing of the legislative session required that these administrative fiscal notes be developed before the Board became effective, so these fiscal notes were based on estimates of the work required for operating a state agency and carrying out the statutory obligations of the Board as defined in Initiative 790 and the enabling legislation.

However, the actuarial support model adopted by the Board in November 2003 and the work plan adopted by the Board in December 2003 create the opportunity for administrative efficiencies and cost-savings to be achieved via interagency agreements with the Office of Financial Management, the Department of Information Services and the State Investment Board.

The proposed FY 05 budget incorporates efficiencies in accounting, information technology support, clerical support and actuarial support, which will allow the Board to carry out all items in the work plan with fewer staff and at a lower cost than was estimated in either the fiscal impact statement or the administrative fiscal notes [see Table 4 below].

3. ESHB 2459 - Supplemental Operating Budget (March 2004)

Table 3

Start-Up Costs		
FY 2004	\$0.38 Million	1.5 FTE
FY 2005	\$0.51 Million	2.0 FTE

Although initially projected to extend into FY 05, the start-up phase for the Board will be completed prior to June 30, 2004. The total cost is expected to be \$450,000 or less based on actual expenditures through February 2004 and projected expenditures for March-June 2004, which were approved by the Board at the March 24, 2004 Board meeting [see table 4 below].

There are two primary reasons for the start-up cost savings. The first is that the Board's interim staff took on the duties associated with start-up implementation in addition to their regular duties, which eliminated the need for additional project staff.

The Board also received significant support from the Office of Financial Management, which greatly reduced administrative operating costs during the start-up phase. OFM support included office space, equipment, phones, IT support, and access to the State Information Services network.

The Department of Personnel provided important services during the start-up phase, which allowed for the prompt conversion of the Board-adopted work plan into an appropriate staff support model. The Department of General Administration assisted in the timely execution of the Board-adopted office space plan.

4. Proposed Operating Budget (April 2004)

Table 4

Start-Up Costs		
FY 2004	\$0.45 Million	1.8 FTE
FY 2005	None	None
Administrative Costs		
FY 2004	None	None
FY 2005	\$0.90 Million	6.0 FTE

The administrative efficiencies and cost savings discussed above allow the Board to accomplish its approved work plan and statutory mandates at a proposed budget of approximately \$900,000 year with six staff.

The breakdown of the proposed six staff is as follows:

- Executive Director
- Executive Assistant
- Deputy Director
- Administrative Services Manager
- 2 Research Analysts

The specific administrative efficiencies incorporated into the proposed staff model include:

- Combining all clerical support functions into the Executive Assistant position,
- Combining all communications functions as well as necessary administrative support for Board members into the Administrative Services Manager position,
- Combining rule-making and individual LEOFF member communication into the Research Analyst positions,
- Incorporating interagency cooperation, some executive management functions and supervisory responsibility into the Deputy Director position.

This staffing structure also provides the flexibility and depth to deal with future Board activities related to contribution rate development, internal and external audits, and responding to stakeholder requests for policy research and development.